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November 23, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D.C. 20554

Re: CC Docket No. 99-68

Dear Ms. Salas:

Yesterday, Bob Blau, Ernest Bush, Steve Inman and the undersigned, all representing BellSouth, met separately with Larry Strickling, Yog Varma, Tamara Priess and Rodney McDonald of the Common Carrier Bureau and Howard Shelanski and Pat DeGraba of the Office of Plans and Policy regarding the above captioned proceeding. At these meetings, BellSouth urged that the Commission make a decision as soon as possible in this proceeding and recommended a solution similar to the Internet peering arrangements between network providers. The attached material served as the basis of BellSouth's discussion.

Please call me if you have any questions.

Yours truly



W.W. Jordan
Vice President - Federal Regulatory

Attachments

cc: Larry Strickling
Yog Varma
Tamara Priess
Rodney McDonald
Howard Shelanski
Pat DeGraba

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Inter-carrier Compensation for ISP Traffic BellSouth 11/22/99 Ex Parte

I. Commission should act now to stop escalating market distortions:

CLECs are aggressively pursuing reciprocal compensation business rather than local exchange market.

Separations misallocation:

- Over allocation of expenses to state jurisdiction.**
- Interstate ROR artificially overstated.**

Reciprocal compensation problem is escalating:

- Growth of Internet.**
- Growth in CLEC claims for reciprocal compensation for ISP traffic.**

II. Current situation:

Calls to the Internet are interstate.

BellSouth subsidizes Internet through free use of network to originate interstate calls to ISPs.

CLECs ask BellSouth to further subsidize Internet through Reciprocal Compensation.

All ILECs should not be painted with same brush:

- BellSouth never agreed to pay, or knowingly paid, reciprocal compensation for Internet calls.**
- BellSouth never billed CLECs for Internet calls.**
- Flat rate, vs. measured rate, does not generate increased revenue with increased usage.**

III. Any inter-carrier compensation plan that results in payments from ILECs to CLECs would only increase the ILECs need for a cost recovery mechanism:

BellSouth not fully compensated for interstate calls to Internet.

CLECs want ILECs to subsidize their services to ISPs:

- CLECs claim calls are local and local exchange end user, not ISP, is cost-causer for entire call.
- CLECs want ILECs to subsidize their ISP offerings through "reciprocal compensation."

Subsidy payments from ILECs to CLECs would increase pressure for new interstate cost recovery mechanism.

Revenue sources for subsidy could include:

- ISPs (BellSouth believes ISPs are cost-causers).
- End users (CLECs claim end users are cost-causers).
- Internet Universal Service fund.

IV. FCC must address funding source for ILEC originated calls to the Internet.

In past FCC orders addressing ESP exemption, Commission declared that exchange business rates/revenues were substitute for ESP access charges.

In its comments in this proceeding, BellSouth observes that the revenue from ISPs is the only revenue currently available for inter-carrier compensation.

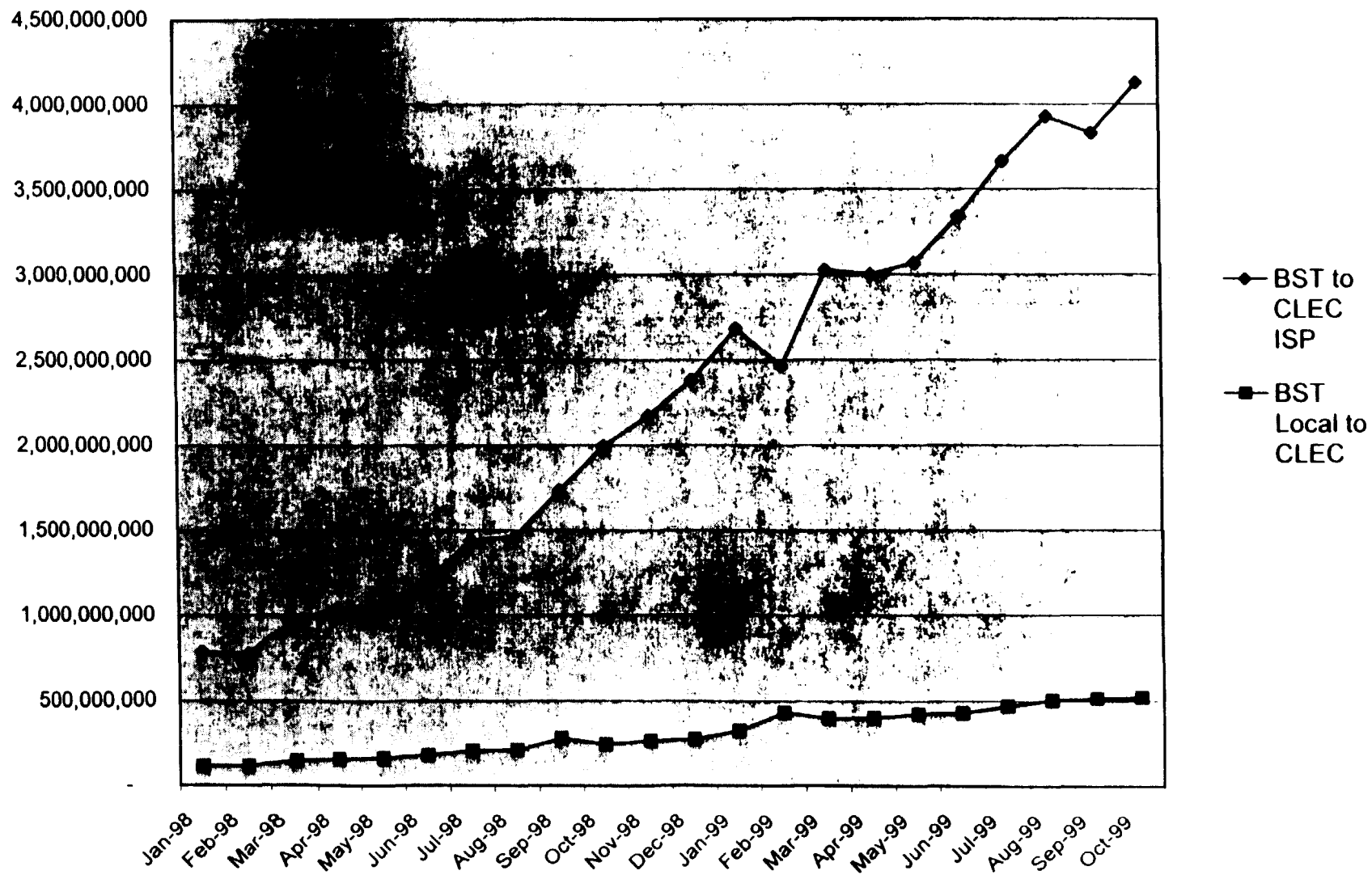
Until the Commission develops a permanent solution such as a new revenue source, BellSouth proposes a compromise between its position and the CLECs' position:

- Recognize that ISP traffic is interstate.**
- Each co-carrier funds its own Internet costs and subsidy.**

This compromise is:

- Similar to Internet peering between Internet network providers.**
- Does not affect ESP exemption.**
- Allows CLECs to keep all revenues from their ISP customers.**

**BellSouth to CLEC
Local & ISP Minutes**



**CLEC Local and ISP MOU
10/99 Billing from CLECs**

<u>Top Billing CLECs</u>	<u>Total Local & ISP MOU (000)</u>	<u>Local Rec. Comp. MOU (000)</u>	<u>%</u>	<u>Est. ISP MOU MOU (000)</u>	<u>%</u>
CLEC 1	933,378	107,227	11%	826,151	89%
2	637,350	22,834	4	614,516	96
3	408,056	30,131	7	377,925	93
4	332,295	13,690	4	318,605	96
5	290,174	11,541	4	278,633	96
6	289,821	12,036	4	277,785	96
7	289,705	32,871	11	256,834	89
8	276,541	12,708	5	263,833	95
All CLECs	4,651,660	522,827	11	4,128,833	89

Attachment 3

Effect of Reclassifying ISP MOU as Interstate

	Actual 6/99 Month		ISP What If	
	<u>Subject to Sep</u> (\$000)	<u>Interstate Access + IX</u> (\$000)	<u>Subject to Sep</u> (\$000)	<u>Interstate Access + IX</u> (\$000)
Total Operating Expenses	783,425	184,831	783,425	197,797
Average Net Investment	19,847,163	4,727,078	19,847,163	5,255,171
Change in Expense	0	0	0	+12,966
Change in Expense Annualized	0	0	0	+ 155,592
Change in Average Net Investment	0	0	0	+ 528,093
ROR Change	0	0	0	- 4.00%